



AUDITOR-GENERAL
SOUTH AFRICA

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Auditor-General of South Africa

Ilembe District Municipality And its controlled entity - Audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on ILembe District Municipality and its controlled entity

Report on the financial statements

Introduction

1. I audited the consolidated and separate financial statements of the ILembe District Municipality and its controlled entity set out on pages ... to ..., which comprise, the consolidated and separate statement of financial position as at 30 June 2016, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall

presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the ILembe District Municipality and its controlled entity as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Debt impairment

8. As disclosed in note 36.7.3 to the financial statements, debt impairment to the amount of R83,68 million was incurred as a result of a waiver of the contractual right to collect the debt.

Material losses

9. As disclosed in note 36.8 to the financial statements, the municipality has incurred material water losses of 7,78 million kilolitres (kl) (2014-15: 8,76 million kl) amounting to R75 million (2014-15: R77,8 million) as a result of illegal connections, main leaks, reservoir overflows and service connection leaks.
10. As disclosed in note 10 to the financial statements, material losses to the amount of R2,45 million were incurred as a result of the impairment of the tunnels that were damaged
11. As disclosed in note 13 to the financial statements, material losses to the amount of R1,06 million was incurred as a result of a write-off of the full value of the Moringa Plantation.

Financial sustainability

12. As disclosed in the statement of financial performance of the annual financial statements the municipal entity incurred a net loss of R0,96 million (2015: R1,41 million) for the year ended 30 June 2016 and, as of that date the municipal entity's unspent grants exceeded its bank balance by R5,77 million. These unfavourable conditions may affect the completion of the existing economic development projects.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Other reports required by Companies Act

15. As part of our audit of the financial statements for the year ended 30 June 2016, I have read the Directors Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the perspective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statement. I have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priority presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic services delivery and socio economic development and planning development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016.
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information was consistent with the planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPi).
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. I did not identify any material findings on the usefulness and reliability of the reported performance information for the basic service delivery and socio economic development and planning development priorities.

Additional matters

22. I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities; however, I draw attention to the following matters.

Achievement of planned targets

23. The annual performance report on pages x to x and x to x includes information on the achievement of the planned targets for the year.

Unaudited supplementary schedules

24. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Other reports

27. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

28. The Provincial Treasury initiated four investigations relating to significant fraud, corruption, and misuse of funds. Three cases has been finalised and reports issued to the municipality to be tabled in the December 2016 council meeting and one investigation is still in progress.

Auditor General

Pietermaritzburg

15 December 2016



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